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## CHAPTER 3

### 3-000 Price Proposals

#### 3-101 Requirements for Submission

a. FAR 15.402, Pricing Policy, contains a hierarchical preference for contracting officers to use in obtaining information to determine price reasonableness. Contracting officers are not to obtain more information than is necessary for determining the reasonableness of the price or evaluating cost realism. Contracting officers are prohibited from obtaining cost or pricing data if an exception to the cost or pricing data submission requirements applies as discussed in FAR 15.403-1 and paragraph 3-701, Truth In Negotiations Act (TINA). However, there are still situations when cost or pricing data must be obtained, e.g., government unique sole source procurements that exceed the cost or pricing data threshold. Paragraphs 3-201, DCAA Audit Evaluation; 3-401, Examples of Data Which May be Requested by DCAA; and 3-501, Model Proposal; address the process when DCAA is requested by a contracting officer to audit cost or pricing data submitted by a contractor.

b. Contracting officers may require: (1) proposal submission of cost or pricing data in the format prescribed in FAR 15.408, Table 15-2, (2) specify an alternative format, or (3) permit submission in the contractor's own format. FAR 15.408, Table 15-2 provides instructions on preparing a proposal, the backup required, and other information when cost or pricing data are required (refer to Figure 3-1-1). An example of a completed proposal cover sheet (the first page of the proposal) as required by FAR 15.408, Table 15-2, and the associated proposal backup are found in the price proposal model (paragraph 3-501 and at Figure 3-5-1). It is extremely important to prepare proposals in accordance with these instructions when the contracting officer specifies that FAR Table 15-2 be used. FAR 15.408, Table 15-2, I. General Instructions, requires that specific information appear on the first page of the proposal. However, many contractors choose to use the former SF1411, Contract Pricing Proposal Cover Sheet, even though it has been eliminated from the FAR. This form, although it does require more information than the FAR, meets the requirements of FAR 15.408, Table 15-2 I.A.

c. In contrast, when DCAA is asked to audit information other than cost or pricing data, the scope of audit will vary significantly. Information other than cost or pricing data may be submitted in the offeror's own format unless the contracting officer decides that use of a specific format is essential and the format has been described in the solicitation (FAR 15.403-5(b)(2)). DCAA participation and the amount of support provided will be at the discretion of the contracting officer. Since the audit process will vary significantly, it is not practical to describe the possible scenarios. Discussion of the audit of cost or pricing data will provide the contractor with an understanding of the full audit process.

## Figure 3-1-1

### **FAR 15.408, Table 15-2 Instructions For Submitting Cost/Price Proposals When Cost or Pricing Data Are Required**

This document provides instructions for preparing a contract pricing proposal when cost or pricing data are required.

**Note 1:** There is a clear distinction between submitting cost or pricing data and merely making available books, records, and other documents without identification. The requirement for submission of cost or pricing data is met when all accurate cost or pricing data reasonably available to the offeror have been submitted, either actually or by specific identification, to the Contracting Officer or an authorized representative. As later information comes into your possession, it should be submitted promptly to the Contracting Officer in a manner that clearly shows how the information relates to the offeror's price proposal. The requirement for submission of cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable.

**Note 2:** By submitting your proposal, you grant the Contracting Officer or an authorized representative the right to examine records that formed the basis for the pricing proposal. That examination can take place at any time before award. It may include those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price.

#### *I. General Instructions*

A. You must provide the following information on the first page of your pricing proposal:

- (1) Solicitation, contract, and/or modification number;
- (2) Name and address of offeror;
- (3) Name and telephone number of point of contact;
- (4) Name of contract administration office (if available);
- (5) Type of contract action (that is, new contract, change order, price revision/redetermination, letter contract, unpriced order, or other);
- (6) Proposed cost; profit or fee; and total;
- (7) Whether you will require the use of Government property in the performance of the contract, and, if so, what property;

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- (8) Whether your organization is subject to cost accounting standards; whether your organization has submitted a CASB Disclosure Statement, and if it has been determined adequate; whether you have been notified that you are or may be in noncompliance with your Disclosure Statement or CAS, and, if yes, an explanation; whether any aspect of this proposal is inconsistent with your disclosed practices or applicable CAS, and, if so, an explanation; and whether the proposal is consistent with your established estimating and accounting principles and procedures and FAR Part 31, Cost Principles, and, if not, an explanation;
  - (9) The following statement: *This proposal reflects our estimates and/or actual costs as of this date and conforms with the instructions in FAR 15.403-5(b)(1) and Table 15-2. By submitting this proposal, we grant the Contracting Officer and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price.*
  - (10) Date of submission; and
  - (11) Name, title and signature of authorized representative.

B. In submitting your proposal, you must include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. In addition, you must annotate any future additions and/or revisions, up to the date of agreement on price, or an earlier date agreed upon by the parties, on a supplemental index.

C. As part of the specific information required, you must submit, with your proposal, cost or pricing data (that is, data that are verifiable and factual and otherwise as defined at FAR 15.401). You must clearly identify on your cover sheet that cost or pricing data are included as part of the proposal. In addition, you must submit with your proposal any information reasonably required to explain your estimating process, including--

- (1) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and
- (2) The nature and amount of any contingencies included in the proposed price.

D. You must show the relationship between contract line item prices and the total contract price. You must attach cost-element breakdowns for each proposed line item, using the appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of this table. You must furnish supporting breakdowns for each cost element, consistent with your cost accounting system.

E. When more than one contract line item is proposed, you must also provide summary total amounts covering all line items for each element of cost.

F. Whenever you have incurred costs for work performed before submission of a proposal, you must identify those costs in your cost/price proposal.

G. If you have reached an agreement with Government representatives on use of forward pricing rates/factors, identify the agreement, include a copy, and describe its nature.

H. As soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal, you must, under the conditions stated in FAR 15.406-2, submit a Certificate of Current Cost or Pricing Data.

## *II. Cost Elements*

Depending on your system, you must provide breakdowns for the following basic cost elements, as applicable:

A. *Materials and services.* Provide a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (vendor quotes, invoice prices, etc.). Include raw materials, parts, components, assemblies, and services to be produced or performed by others. For all items proposed, identify the item and show the source, quantity, and price. Conduct price analyses of all subcontractor proposals. Conduct cost analyses for all subcontracts when cost or pricing data are submitted by the subcontractor. Include these analyses as part of your own cost or pricing data submissions for subcontracts expected to exceed the appropriate threshold in FAR 15.403-4. Submit the subcontractor cost or pricing data as part of your own cost or pricing data as required in paragraph IIA(2) of this table. These requirements also apply to all subcontractors if required to submit cost or pricing data.

(1) *Adequate Price Competition.* Provide data showing the degree of competition and the basis for establishing the source and reasonableness of price for those acquisitions (such as subcontracts, purchase orders, material order, *etc.*) exceeding, or expected to exceed, the appropriate threshold set forth at FAR 15.403-4 priced on the basis of adequate price competition. For interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the contractor, explain the pricing method (see FAR 31.205-26(e)).

(2) *All Other.* Obtain cost or pricing data from prospective sources for those acquisitions (such as subcontracts, purchase orders, material order, *etc.*) exceeding the threshold set forth in FAR 15.403-4 and not otherwise exempt, in accordance with FAR 15.403-1(b) (*i.e.*, adequate price competition, commercial items, prices set by law or regulation or waiver). Also provide data showing the basis for establishing source and reasonableness of price. In addition, provide a summary of your cost analysis and a copy of cost or pricing data submitted by the prospective source in support of each subcontract, or purchase order that is the lower of either \$10,000,000 or more, or both more than the pertinent cost or pricing data threshold and more than 10 percent of the prime contractor's proposed price. The Contracting Officer may require you to submit cost or pricing data in support of proposals in lower amounts. Subcontractor cost or pricing data must be accurate, complete and current as of the date of final price agreement, or an earlier date agreed upon by the parties, given on the prime contractor's Certificate of Current Cost or Pricing Data. The prime contractor is

responsible for updating a prospective subcontractor's data. For standard commercial items fabricated by the offeror that are generally stocked in inventory, provide a separate cost breakdown, if priced based on cost. For interorganizational transfers priced at cost, provide a separate breakdown of cost elements. Analyze the cost or pricing data and submit the results of your analysis of the prospective source's proposal. When submission of a prospective source's cost or pricing data is required as described in this paragraph, it must be included along with your own cost or pricing data submission, as part of your own cost or pricing data. You must also submit any other cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on that data.

B. *Direct Labor.* Provide a time-phased (*e.g.*, monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates.

C. *Indirect Costs.* Indicate how you have computed and applied your indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.

D. *Other Costs.* List all other costs not otherwise included in the categories described above (*e.g.*, special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and Federal excise tax on finished articles) and provide bases for pricing.

E. *Royalties.* If royalties exceed \$1,500, you must provide the following information on a separate page for each separate royalty or license fee:

- (1) Name and address of licensor.
- (2) Date of license agreement.
- (3) Patent numbers.
- (4) Patent application serial numbers, or other basis on which the royalty is payable.
- (5) Brief description (including any part or model numbers of each contract item or component on which the royalty is payable).
- (6) Percentage or dollar rate of royalty per unit.
- (7) Unit price of contract item.
- (8) Number of units.
- (9) Total dollar amount of royalties.
- (10) If specifically requested by the Contracting Officer, a copy of the current license agreement and identification of applicable claims of specific patents (see FAR 27.204 and 31.205-37).

F. *Facilities Capital Cost of Money.* When you elect to claim facilities capital cost of money as an allowable cost, you must submit Form CASB-CMF and show the calculation of the proposed amount (see FAR 31.205-10).

### III. *Formats for Submission of Line Item Summaries*

#### A. New Contracts (Including Letter Contracts)

Cost elements	Proposed contract estimate – total cost	Proposed contract estimate – unit cost	Reference
(1)	(2)	(3)	(4)

- (1) Enter appropriate cost elements.
- (2) Enter those necessary and reasonable costs that, in your judgment, will properly be incurred in efficient contract performance. When any of the costs in this column have already been incurred (e.g., under a letter contract), describe them on an attached supporting page. When preproduction or startup costs are significant, or when specifically requested to do so by the Contracting Officer, provide a full identification and explanation of them.
- (3) Optional, unless required by the Contracting Officer.
- (4) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

#### B. Change Orders, Modifications, and Claims

Cost elements	Estimated cost of all work deleted	Cost of deleted work already performed	Net cost to be deleted	Cost of work added	Net cost of change	Reference
(1)	(2)	(3)	(4)	(5)	(6)	(7)

- (1) Enter appropriate cost elements.
- (2) Include the current estimates of what the cost would have been to complete the deleted work not yet performed (not the original proposal estimates), and the cost of deleted work already performed.
- (3) Include the incurred cost of deleted work already performed, using actuals incurred if possible, or, if actuals are not available, estimates from your accounting records. Attach a detailed inventory of work, materials, parts, components, and hardware already purchased, manufactured, or performed and deleted by the change, indicating the cost and proposed disposition of each line item. Also, if you desire to retain these items or any portion of them, indicate the amount offered for them.

- (4) Enter the net cost to be deleted, which is the estimated cost of all deleted work less the cost of deleted work already performed. Column (2) minus Column (3) equals Column (4).
- (5) Enter your estimate for cost of work added by the change. When nonrecurring costs are significant, or when specifically requested to do so by the Contracting Officer, provide a full identification and explanation of them. When any of the costs in this column have already been incurred, describe them on an attached supporting schedule.
- (6) Enter the net cost of change, which is the cost of work added, less the net cost to be deleted. Column (5) minus Column (4) equals Column (6). When this result is negative, place the amount in parentheses.
- (7) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

#### C. Price Revision/Redetermination

Cutoff date	Number of units completed	Number of units to be completed	Contract amount	Redetermination proposal amount	Difference	Cost elements
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Incurred cost – preproduction	Incurred cost – completed units	Incurred cost – work in process	Total incurred cost	Estimated cost to complete	Estimated total cost	Reference
(8)	(9)	(10)	(11)	(12)	(13)	(14)

(Use as applicable).

- (1) Enter the cutoff date required by the contract, if applicable.
- (2) Enter the number of units completed during the period for which experienced costs of production are being submitted.
- (3) Enter the number of units remaining to be completed under the contract.
- (4) Enter the cumulative contract amount.
- (5) Enter your redetermination proposal amount.
- (6) Enter the difference between the contract amount and the redetermination proposal amount. When this result is negative, place the amount in parentheses. Column (4) minus Column (5) equals Column (6).

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- (7) Enter appropriate cost elements. When residual inventory exists, the final costs established under fixed-price-incentive and fixed-price-redeterminable arrangements should be net of the fair market value of such inventory. In support of subcontract costs, submit a listing of all subcontracts subject to repricing action, annotated as to their status.
  - (8) Enter all costs incurred under the contract before starting production and other nonrecurring costs (usually referred to as startup costs) from your books and records as of the cutoff date. These include such costs as preproduction engineering, special plant rearrangement, training program, and any identifiable nonrecurring costs such as initial rework, spoilage, pilot runs, *etc.* In the event the amounts are not segregated in or otherwise available from your records, enter in this column your best estimates. Explain the basis for each estimate and how the costs are charged on your accounting records (*e.g.*, included in production costs as direct engineering labor, charged to manufacturing overhead). Also show how the costs would be allocated to the units at their various stages of contract completion.
  - (9) Enter in Column (9) the production costs from your books and records (exclusive of preproduction costs reported in Column (8)) of the units completed as of the cutoff date.
  - (10) Enter in Column (10) the costs of work in process as determined from your records or inventories at the cutoff date. When the amounts for work in process are not available in your records but reliable estimates for them can be made, enter the estimated amounts in Column (10) and enter in Column (9) the differences between the total incurred costs (exclusive of preproduction costs) as of the cutoff date and these estimates. Explain the basis for the estimates, including identification of any provision for experienced or anticipated allowances, such as shrinkage, rework, design changes, *etc.* Furnish experienced unit or lot costs (or labor hours) from inception of contract to the cutoff date, improvement curves, and any other available production cost history pertaining to the item(s) to which your proposal relates.
  - (11) Enter total incurred costs (Total of Columns (8), (9), and (10)).
  - (12) Enter those necessary and reasonable costs that in your judgment will properly be incurred in completing the remaining work to be performed under the contract with respect to the item(s) to which your proposal relates.
  - (13) Enter total estimated cost (Total of Columns (11) and (12)).
  - (14) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.) [FAC 97-2, 62 FR 51224, 9/30/97, effective 10/10/97]



**3-201 DCAA-Offered Forward Pricing Services (Figure 3-2-1)**

DCAA offers a number of forward pricing services to meet the needs of contracting officers. Figure 3-2-1 summarizes the various services offered along with key characteristics for each type of service. Citations are provided to the pertinent audit policy prescribed in the DCAA Contract Audit Manual. The following sections discuss each type of DCAA service.

Type of Service	Scope of Service	Contractor's Supporting Documentation	Type of Report Statement	Reporting	CAM Cite
Specific Cost Information [Activity Code 25000]	Provide existing data in FAO files, or additional services that can be provided in four hours or less	Cost or pricing data; information other than cost or pricing data	None	Telephone with written confirmation memorandum	9-107
Application of Agreed-Upon Procedures [Activity Code 28000]	Performance of specific procedures agreed upon up front with the customer	Cost or pricing data; information other than cost or pricing data	Disclaimer	Report	9-108 9-207
Cost Realism Analysis [Activity Code 28000]	To ascertain potential cost understatement	Information other than cost or pricing data	Disclaimer	Report	9-108 9-311.4
Audit of Part(s) of a Proposal [Activity Code 27000]	Examination of one or more cost elements or parts of a cost element, e.g., rates or the bases but not entire proposal	Cost or pricing data on the part(s) to be examined; information other than cost or pricing data on the part(s) to be examined (cost data only)	Opinion only on the part(s) of the proposal examined	Report	9-108 9-210
Complete Proposal Audit [Activity Code 21000]	Examination of an entire proposal	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion on proposal as a whole	Report	Chapter 9
Audit of Forward Pricing Rates [Activity Code 23000]	Examination of a contractor's direct and indirect rates (generally in support of forward pricing rate agreements or informal rate recommendations; however, a request to examine an individual price proposal can trigger an activity code 23000, if the results of the rate findings are expected to form the basis for subsequent audit rate recommendations related to other price proposals)	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion on the rates examined	Report	9-700 9-1200
Integrated Product Team (IPT) [Activity Code 22000]	Auditor effort expended participating on a chartered IPT which culminates in either a full examination of a proposal, examination of a part of a proposal, or an application of agreed-upon procedures	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion or disclaimer based on the services performed, refer to boxes for activity codes 21000, 27000, or 28000 as applicable	Report	1-805 1-806

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### **3-201.1 Specific Cost Information**

The contracting officer needs quick access to rate information or other specific cost data. The contracting officer does not expect an audit of the contractor's proposal. Generally, the auditor provides a response based on the information that is readily available in the field audit office files. However, the auditor may respond to any request for forward pricing assistance from a customer when auditor effort can be accomplished in four hours or less. This may include auditor contact with the contractor. The auditor issues a confirming memorandum, not a report. Since an audit has not been performed and report is not being issued, the auditor does not render or disclaim an opinion on the acceptability of the proposal as the basis for negotiation of a fair and reasonable price.

### **3-201.2 Application of Agreed-Upon Procedures**

The auditor performs specified procedures to evaluate the contractor's proposal. The contracting officer, with the auditor's assistance, agrees upon the procedures to be accomplished at the start of the audit. The contracting officer, not the auditor, takes the responsibility of establishing the scope of the audit because the contracting officer has the best understanding of his/her needs which are less than an examination, (e.g., audit of the entire proposal or audit of part(s) of a proposal). DCAA issues a report describing the findings of the procedures accomplished. The report will not express an opinion on whether the proposal is an acceptable basis for the negotiation of a fair and reasonable price, since the purpose of this type of service is to apply the procedures that the customer needs, not to perform the procedures that the auditor believes necessary in order to support rendering an opinion.

### **3-201.3 Cost Realism Analysis**

The contracting officer requests the auditor to evaluate the overall costs in a contractor's proposal to determine if the costs are realistic for the work to be performed, reflect a clear understanding of the requirements, and are consistent with the various elements of the contractor's technical proposal. The goal of the cost realism analysis is to ensure that the proposed costs are not significantly understated. Since cost realism analyses are applications of agreed-upon procedures, the auditor performs specified procedures to evaluate the contractor's proposal. The contracting officer, with the auditor's assistance, agrees-upon the procedures to be accomplished at the start of the audit. The contracting officer, not the auditor, takes the responsibility of establishing the scope of the audit because the contracting officer has the best understanding of his/her needs which are less than an examination, (e.g., audit of the entire proposal or audit of part(s) of a proposal). DCAA issues a report describing the findings of the procedures accomplished. The report will not express an opinion on whether the proposal is an acceptable basis for the negotiation of a fair and reasonable price, since the purpose of this type of service is to (1) focus on the cost realism of the contractor's proposal, not the acceptability of the proposal as a basis for negotiation of a fair and reasonable price and (2) apply the procedures that the customer needs, not to perform the procedures that the auditor believes necessary in order to support rendering an opinion.

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**3-201.4 Audit of Parts of a Proposal**

The contracting officer requests the auditor to examine selected parts of the proposal, i.e., only specified rates or selected cost elements, not the entire proposal. The auditor establishes the scope of the examination. The auditor issues a report that renders an opinion as to the acceptability of the parts of the proposal examined as a basis for negotiation of a fair and reasonable price. The auditor will disclaim an opinion on the acceptability of the proposal as a whole because the auditor is not performing procedures to gather sufficient, competent evidence on the proposal as a whole.

**3-201.5 Audit of the Entire Proposal**

The contracting officer requests the auditor to examine the entire proposal. The auditor establishes the scope of the examination. The auditor issues a report that renders an opinion as to the acceptability of the contractor's proposal as a basis for negotiation of a fair and reasonable price.

**3-201.6 Audit of Forward Pricing Rates**

The auditor examines a contractor's direct and/or indirect rates. Generally, such an examination is conducted in support of forward pricing rate agreements (FPRAs) or informal forward pricing rate recommendations (FPRRs). Contracting officers may request these types of services or an auditor may self-initiate an examination of the rates. A request to examine an individual price proposal can trigger an audit of forward pricing rates if the results of the rate findings are expected to form the basis of subsequent audit rate recommendations related to other price proposals. The auditor issues a report that renders an opinion.

**3-201.7 Integrated Product Teams (IPTs)**

a. On May 10, 1995, the Secretary of Defense issued a memorandum directing the use of IPTs to the maximum extent practicable throughout the DoD acquisition process. DoD IPTs are composed of representatives from all appropriate government buying organizations, contract administrative services, and audit offices working together with contractors to build successful and balanced procurement programs. The major objectives of an IPT are better RFPs/RFQs, better proposals, reduced cycle time between issuance of the RFP/RFQ and contract award, and better understanding by all interested parties of the contract requirements.

b. A pricing IPT will begin work when the RFP/RFQ is being developed and will normally continue its work through proposal development, audit, negotiation, contract award, and contract performance. The PCO will chair the IPT, determine its membership, and set its scope. The intent in using IPTs is to avoid rework at the end of a process by identifying problems and finding potential solutions at the earliest possible point in the procurement process.

c. The two most important characteristics of an IPT are cooperation and empowerment. To be effective, teams must have full and open discussions. IPT members are not required or

encouraged to compromise their positions to reach an agreement (for example, DCAA will fully participate, but is also expected to continue to act as an independent financial advisor and to provide an independent audit opinion).

### **3-201.8 Auditor's Role on DoD IPTs**

a. The auditor will be a full participant in IPTs that require financial advisory services. As part of the IPT, contracting officers may request auditors to audit the complete pricing proposal, audit part of the pricing proposal, or to apply agreed-upon procedures.

b. The auditor's role on the IPT during the proposal preparation process is to provide real-time feedback on such items as:

- Proposal support data expectations
- Proposal estimating techniques
- Impact of outstanding estimating or accounting system deficiencies on the proposal preparation process and actions needed to correct the deficiencies

To maintain audit independence, the auditor will not assist the contractor in preparing the proposal.

c. IPTs encourage the audit of the proposal parts (for example, consolidated bills of material, major subcontracts, and other direct costs) as the contractor completes each section. However, it is important that the contractor's management approve the proposal parts before the audit begins. DCAA can not expend valuable resources auditing unapproved or in-process estimates, just as contractors can not afford to incur additional costs to support tentative positions. The auditor will communicate to the team on a real-time basis, either orally or in writing as decided by the team, any inadequacies, noncompliances, or factual differences found during the audit of the proposal parts.

d. The Generally Accepted Auditing Standards and DCAA policy require auditors to prepare an audit report that will communicate the results of the auditor's participation on an IPT and of the proposal evaluation. The DCAA Field Audit Office will normally not issue the audit report until the contractor submits their completed, approved proposal. If the contractor has an effective system for integrating the proposal parts, then the cycle time between submission of the full proposal and the issuance of the audit report should be very short. Ideally, at the point when the contractor submits its full proposal, the auditor already will have completed most of the fieldwork. The remaining work usually entails a reconciliation of the proposal parts submitted during the IPT process with the completed version, and follow-up with the contractor on any differences.

### **3-301 DCAA Audit**

a. The auditor initiates an audit when the Procuring Contracting Officer (PCO) or the Administrative Contracting Officer (ACO), submits a request to the cognizant DCAA office. The auditor will then contact a company representative and establish a date and time for an entrance conference to begin the audit. The request from the PCO/ACO will specify a report due date.

b. The actual audit time at a contractor location will vary depending on the size and complexity of the audit and availability of data. The quality of the proposal package submitted will also have a big impact on audit time. The auditor will first review the contractor's proposal to determine if it has been adequately prepared (in accordance with the instructions in FAR 15.408, Table 15-2 or the format specified by the contracting officer). If the proposal has not been adequately prepared, the auditor will recommend to the PCO/ACO that the proposal be returned to the contractor without audit until such time as an adequate proposal is received. If the proposal is adequate, the auditor will try to complete the audit as quickly as feasible with as little disruption as possible to the company routine.

c. If, for any reason during the audit, the auditor is not granted access to required information or the necessary people, the auditor will notify the PCO/ACO of the problem. Depending on the significance of the data, the auditor may be forced to terminate the audit.

d. When the price of a contract or contract modification exceeds \$550,000 and is to be negotiated on the basis of cost or pricing data (e.g., historical accounting data, purchase orders, etc.), the contractor is required to certify that the data in support of its proposal are accurate, complete, and current (refer to FAR 15.403-4 ). In addition, FAR 15.404-1(c)(iv) states that cost analysis also shall include appropriate verification that the offeror's cost submissions are in accordance with contract cost principles and, when applicable, the Cost Accounting Standards (CAS). FAR 31.201-2 states that the factors to be considered in determining whether a cost is allowable include the following: (i) reasonableness, (ii) allocability, (iii) standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the particular circumstances, (iv) terms of the contract, and (v) any limitations set forth in this subpart of FAR.

e. In order for DCAA to perform the FAR 15.404-1(c)(iv) verification, and to provide a timely, adequate, and fair evaluation of the contractor's proposal, the contractor should have available detailed schedules of the labor and overhead rates used in the proposal. The schedules should show computations and tie into the existing accounting system. The schedules should also present the historical data and the rationale used in deriving future projections, and exclude all unallowable costs (refer to paragraph 2-301.2h and FAR 31.201-6). The accounting method used in estimating proposed costs should be the same as the method used to accumulate costs. Whenever possible, the proposal and supporting data should be provided in an electronic format. Submission in an electronic format is more efficient and conserves resources for both the contractor and the government. The contractor and auditor should work together to address software compatibility issues if they occur.

f. Upon completion of the audit, the auditor will hold an exit conference with a designated company representative. The exit conference will address all factual aspects of the proposal audit. If exceptions are taken to the judgmental aspects of the proposal, the auditor will not disclose detailed conclusions relative to the reasons or amounts that may be questioned. These judgmental differences are subject to negotiation by the contracting officer. All audit conclusions discussed at an exit conference are subject to supervisory and managerial review; therefore, changes may occur. If these changes affect factual aspects and are significant, the contractor will be advised.

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### **3-401 Examples of Data That DCAA May Request**

a. The basis of the proposed labor rates and classifications including any proposed escalation factors.

(1) DCAA will want to understand how proposed labor rates were estimated and will want to audit any data that support these estimates.

(2) DCAA will want to understand and evaluate the basis of labor categories (labor grades) proposed and the hours assigned to each labor category.

b. The basis of the proposed labor hours, including staff-loading charts and comparisons of proposed hours to experienced hours for the production of similar items.

c. The basis of proposed subcontracts and material costs. This support should include a detailed bill of materials (which is a listing of all materials proposed on a contract with per unit and extended prices), current material purchase pricing records (such as vendor quotations, catalogs and purchase orders), competitive bids for major subcontract purchases, and engineering/manufacturing estimate sheets. The contractor is also required to provide cost analyses for all major noncompetitive subcontract and material purchases.

d. The basis of the proposed indirect expense rates including overhead, general and administrative, material handling, and fringe benefits. Required support for all companies is a current year operating budget and a forecast covering the periods and departments/segments of anticipated contract performance. The budget should detail indirect expenses and show the relationship of direct labor (or other indirect expense allocation bases) to sales projections. Support also includes comparisons by year of projected overhead expenses by account to prior years' incurred amounts.

e. Financial statements showing the stability of the company. If actual data are not yet available, projected financial statements should be prepared as part of the company budget.

f. The contractor is responsible for justifying and fully supporting all items in the proposal so that the audit will not be prolonged or negotiations delayed. All significant problems related to factual aspects of the proposal will be fully discussed with the company's representative. The auditor is required to notify the contracting officer of unsupported costs and to explain what is needed from the contractor to support the costs. Unsupported costs are those items for which the contractor does not furnish sufficient documentation to enable the auditor to reach a definitive conclusion. The contracting officer generally will request the contractor to develop appropriate support for any estimates upon which DCAA cannot develop an adequate audit opinion.

g. As indicated in 3-101c, data requested by DCAA to evaluate information other than cost or pricing data will be based on the DCAA assistance requested by the contracting officer and the type of cost information (other than cost or pricing data) the contractor has submitted. When the contracting officer requests that the auditor perform an examination of a proposal supported by cost information (other than cost or pricing data), then the

auditor will request the type of data described in paragraphs a. through f. If the contracting officer has requested that auditor to perform specific procedures on submitted cost information, paragraphs a. through f. above give an idea of the types of data that could be requested on a limited basis depending on the circumstances of the procurement and the cost information submitted by the contractor. Sometimes, the auditor may be asked to assist the contracting officer in making his/her determination as to whether an item meets the commercial item definition in FAR 2.101 and/or as to whether the price is reasonable. Examples of data that may be requested when assisting a contracting officer in evaluating offered commercial items include:

- Source documents supporting sales history, quantities, and prices;
- Documents identifying special terms and conditions;
- Documents identifying customarily offered discounts for an item;
- Sources of financial data such as surveys, financial studies, etc.;
- Catalogs and price lists; or
- Historical data for an item previously not determined commercial that the offeror is now trying to qualify as a commercial item.

### **3-501 Model Proposal-Advanced Tank Technologies (ATT)**

Background information, similar to the following should be provided:

(1) ATT was incorporated in the State of Maryland in 1985. ATT is a research and development concern specializing in engineering feasibility studies and surface vehicle design. As recently as 1995, ATT developed a small manufacturing capability that enables it to manufacture prototypes of its basic designs. ATT had to borrow funds from a local lending institution to establish this capability. ATT provides services primarily to major DoD contractors on a firm-fixed price (FFP) basis.

(2) This procurement, solicited by Request for Proposal (RFP) number DAAH01-99-R-0001, calls for the production of 50 prototypes of a new heavy-duty shock absorber. ATT designed this part under another Army contract for the Armored Personnel Carrier Program.

(3) The period of performance is February 28, 1999 to September 30, 2001.

## Figure 3-5-1 Model Proposal

### PROPOSAL COVER SHEET

(Cost or Pricing Data Required)

1. **Solicitation/Contract/Modification No.:** DAAH01-02-R-0001

2. Advanced Tank Technologies  
500 East Highway  
Washington, DC 20001

3. **Point of Contact**

Jane Doe  
Contracts Manager  
(202) 555-1212

4. **Contract Administration Office**

DCMC Baltimore  
200 Townsontown Blvd., West  
Towson, MD 21204-5299  
(301) 339-4800

**Audit Office**

District Branch Office  
8181 Professional Place  
Landover, MD 20785-2218  
(301) 436-2090

5. **Type of Contract Action:** New Contract

6.

Proposed Cost	+	Profit or Fee	=	Total:
\$938,241	+	\$93,824	=	\$1,032,065

7. **Government Property**

We will not require the use of any government property in the performance of this work.

8. **Cost Accounting Standards (CAS) and Estimating & Accounting Compliance**

- Our organization is NOT subject to the Cost Accounting Standards Board (CASB) Regulations (Public Law 91-379) as amended and FAR Part 30. We have a Small Business Exemption.
  - This contract action is NOT subject to CAS. We have a Small Business Exemption.
  - NO, we have not submitted a CASB Disclosure Statement (CASB DS-1 or 2).
  - We have NOT been notified that we are or may be in noncompliance with our Disclosure Statement or CAS.
  - NO aspect of this proposal is inconsistent with our disclosed practices or applicable CAS.
  - YES, this proposal is consistent with our established estimating and accounting practices and procedures and FAR Part 31, Cost Principles.
9. This proposal reflects our estimates and/or actual costs as of this date and conforms with the instructions in FAR 15.403-5(b)(1) and FAR 15.408, Table 15-2. By submitting this proposal, we grant the Contracting Officer and authorized representative(s) the right to examine, at any time before, award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price.

10. November 21, 2001



11. John Smith, President



Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response To RFP DAAH01-02-R-0001

<u>Element of Cost</u>	<u>Amount</u>	<u>Reference</u>
Engineering Labor	\$452,151	Schedule 1
Manufacturing Labor	26,412	Schedule 1
Direct Labor Overhead @ 56.7%	271,345	Schedule 3
Material	113,175	Schedule 2
Material Handling Overhead @ 5.0%	<u>5,659</u>	Schedule 5
Subtotal	868,742	
G&A @ 8.0%	<u>69,499</u>	Schedule 4
Estimated Cost	938,241	
Profit @ 10.0%	<u>93,824</u> *	
Total Price	<u>\$1,032,065</u>	

\* Contractors can negotiate profit with the contracting officer. Typically, contracting officers use criteria in FAR 15.404-4 for establishing a profit objective. DoD contracting officers may use the weighted guidelines policy described in DFARS 215.404-4 .

Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response to RFP DAAH01-02-R-0001

Figure 3-5-1  
SCHEDULE 1

Labor Category	2002			2003			2004			Total	
	Rate/Hr	Hours	Total	Rate/Hr	Hours	Total	Rate/Hr	Hours	Total	Hours	Total
Program Manager	\$ 33.93	683	\$ 23,174	\$ 35.63	760	\$ 27,079	\$ 37.41	507	\$ 18,968	1,950	\$ 69,221
Senior Engineer	26.39	1,200	\$ 31,668	\$ 27.71	900	\$ 24,939	\$ 29.10	700	\$ 20,367	2,800	\$ 76,974
Junior Engineer	22.12	1,800	\$ 39,816	\$ 23.23	1,500	\$ 34,845	\$ 24.39	900	\$ 21,952	4,200	\$ 96,613
Engineering Aide	14.50	1,800	\$ 26,100	\$ 15.23	550	\$ 8,377	\$ 15.99	50	\$ 800	2,400	\$ 35,276
Technical Writer	16.00	-	-	\$ 16.80	-	-	\$ 17.64	900	\$ 15,876	900	\$ 15,876
Metalurgist	18.85	1,900	\$ 35,815	\$ 19.79	1,200	\$ 23,748	\$ 20.78	700	\$ 14,546	3,800	\$ 74,109
Draftsman	18.95	2,200	\$ 41,690	\$ 19.90	1,500	\$ 29,850	\$ 20.90	600	\$ 12,537	4,300	\$ 84,076
Total Direct Labor - Engineering		<u>9,583</u>	<u>\$ 198,263</u>		<u>6,410</u>	<u>\$ 148,837</u>		<u>4,357</u>	<u>\$ 105,044</u>	<u>20,350</u>	<u>\$ 452,145</u>
Labor Category	2002			2003			2004			Total	
	Rate/Hr	Hours	Total	Rate/Hr	Hours	Total	Rate/Hr	Hours	Total	Hours	Cost
Fabrication	\$ 10.85	400	\$ 4,340	\$ 11.39	600	\$ 6,836	\$ 11.96	600	\$ 7,177	1,600	\$ 18,353
Assembly	9.25	-	-	9.71	200	\$ 1,943	10.20	600	\$ 6,119	800	\$ 8,062
Total Direct Labor - Manufacturing		<u>400</u>	<u>\$ 4,340</u>		<u>800</u>	<u>\$ 8,779</u>		<u>1,200</u>	<u>\$ 13,296</u>	<u>2,400</u>	<u>\$ 26,415</u>
Total Direct Labor			<u>\$ 202,603</u>			<u>\$ 157,616</u>			<u>\$ 118,340</u>		<u>\$ 478,560</u>
Direct Labor Overhead @ 56.7%			<u>\$ 114,876</u>			<u>\$ 89,369</u>			<u>\$ 67,099</u>		<u>\$ 271,343</u>

All hours proposed are based on historical costs, reference contract DAAH01-99-C-0001, account 9271

The supporting data showing the historical hours and the development of the proposed hours are in file "DAAH01-02-R-0001, Hours" and is available immediately upon request.

The direct labor rates are based on actual average rates as of 31 October 2001 and escalated 5 percent each year. The supporting data and rate calculations are located in file "DAAH01-02-R-0001, Direct Labor Rates" and is available immediately upon request.

## SCHEDULE 2

Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response to RFP DAAH01-02-R-0001

Shock Absorber  
Bill of Material

<u>Support</u>	<u>Qty</u> (Note 4)	<u>Unit Price</u>	<u>Total</u>	<u>Notes</u>
Sheet Metal	1,600 sq. yd	\$25.00	\$40,000	(1)
Casings	750 pcs.	8.50	6,375	(2)
Plastic	7,500 pcs.	5.75	43,125	(1)
Springs	1,700 pcs.	4.00	6,800	(2)
Bolts	7,500 pcs.	2.25	<u>16,875</u>	(2)
Total Material			<u>\$113,175</u>	
Material Overhead at 5.0%			<u>\$5,659</u>	(3)

Explanatory Notes

- (1) These prices are supported by multiple vendor quotes. The proposed prices are those provided by the low bidder who was the ACME Corporation in their quotation dated October 21, 2001. The quotations are included in file "DAAH01-02-R-0001, Vendor Quotations" that are available immediately upon request.
- (2) These prices are supported by the Halloween edition of the Springs R Us Catalog. This catalog is available for audit in the pricing office.
- (3) See Schedule 5.
- (4) The proposed quantities are from the engineering drawings for the shock absorber. This drawing is located in file "DAAH01-02-R-0001, Engineering Drawing" and is immediately available upon request.

SCHEDULE 3

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2002 Labor Overhead  
Actual Overhead Expenses for Fiscal Years 1999 through 2001

<u>Overhead Expenses (Note 2)</u>	Budget	<u>Actual Expenses (Note 1)</u>		
	2002	2001	2000	1999
Indirect Payroll	\$260,000			
Payroll Taxes	228,000			
Vacation	120,000			
Holiday	110,000			
Sick Leave	50,000			
Pensions	171,000			
Employee Morale	5,000			
Entertainment	50,000			
Office Equipment	7,000			
Depreciation	5,000			
Subscriptions	1,500			
Travel	22,000			
Miscellaneous	2,000			
Stationery	6,000			
Reproduction	17,000			
Maintenance	5,000			
Rent	202,000			
Telephone	11,000			
Insurance	102,000			
Total Pool	<u>\$1,374,500</u>			
Less Unallowable Costs				
Entertainment	<u>\$ 50,000</u>			
Net Allowable Expenses	<u>\$1,324,500</u>			
<u>Allocation Base</u>				
Direct Labor	<u>\$2,336,000</u>		(Note 3)	
Rate	<u>56.7%</u>		(Note 4)	

Explanatory Notes

- (1) Provide the prior three years' actual overhead expense and allocation base in the same format as the budget for 2002. For the year 2001, actuals to date are provided.
- (2) The projected overhead expenses are based on the company's operating budget for 2002. The operating budget supporting data is located in file "DAAH01-02-R-0001, Overhead Operating Budget" and is immediately available upon request.
- (3) Includes Bid and Proposal Labor of \$5,000.
- (4) The same rate is estimated for fiscal years 2003 and 2004. We anticipate minimal inflation and a stable business base. The data and analysis supporting this assertion is located in file "DAAH01-02-R-0001, Overhead Forecast" and is immediately available upon request.

## SCHEDULE 4

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2002 G&A  
Actual G&A Expenses for Fiscal Years 1999 through 2001

2002 Projected G&A Expenses (Note 2)		Less Unallowables	Net Allowable Expenses	Actual Expenses (Note 1)		
				2001	2000	1999
Payroll Taxes	\$ 16,000		\$ 16,000			
Officers' Salaries	165,000		165,000			
Indirect Salaries	21,000		21,000			
Interest	14,000	\$ 14,000	0			
Vacation	11,000		11,000			
Holiday	9,000		9,000			
Sick Leave	5,000		5,000			
Contributions	8,000	8,000	0			
Pensions	12,000		12,000			
Office Equipment	1,000		1,000			
Depreciation	2,500		2,500			
Travel	10,000		10,000			
Miscellaneous	2,000		2,000			
Legal Fees	7,000		7,000			
Accounting Fees	7,000		7,000			
Computer	17,500		17,500			
Rent	15,000		15,000			
Advertising	8,500	8,500	0			
Telephone	3,000		3,000			
Insurance	<u>7,000</u>		<u>7,000</u>			
Total Pool	\$ 341,500	\$ 30,500	\$ 311,000			
B&P	<u>8,500</u>		<u>8,500</u>	(Note 3)		
Total G&A and B&P	\$ <u>350,000</u>	\$ <u>30,500</u>	\$ <u>319,500</u>			
		<u>Allocation Base</u>				
		Labor	\$ 2,331,000			
		Overhead	1,371,665	(Note 4)		
		Other Direct Costs	29,000			
		Materials	250,000			
		Material Overhead	<u>12,500</u>			
		Total Base	<u>\$ 3,994,165</u>			
		Rate	<u>8.0%</u>	(Note 5)		

## Explanatory Notes

- (1) Provide the prior three years' actual G&A expenses and the allocation base in the same format as the 2002 budget. For the year 2001, actuals are provided to date.
- (2) The projected G&A expenses are based on the company's operating budget for 2002. The operating budget supporting data is located in file "DAAH01-02-R-0001, G&A Operating Budget" and is available immediately upon request.
- (3) Includes \$665 B&P Travel (\$5,000 + \$2,835 + \$665).
- (4) Total Pool, excluding \$2,835 allocated to B&P Labor (\$5,000 x .567) [\$1,374,500 - \$2,835].
- (5) The same rate is estimated for fiscal years 2003 and 2004. We anticipate minimal inflation and a stable business base. The data and analysis supporting this assertion is included in file "DAAH01-02-R-0001, G&A" and is available immediately upon request.

SCHEDULE 5

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2002 Labor Overhead  
Actual Overhead Expenses for Fiscal Years 1996 through 2001

	Budget	<u>Actual Expenses (Note 1)</u>		
<b>Material Handling Expenses (Note 2)</b>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Purchasing Department	\$10,000			
Receiving Department	<u>2,500</u>			
Total Expenses	<u>\$12,500</u>			
Less Unallowable Costs	\$ <u>0</u>			
Net Allowable Expenses	<u>\$12,500</u>			
<b>Allocation Base</b>				
Materials	<u>250,000</u>			
Material Overhead Rate (Note 3)	<u>5.0%</u>			

Explanatory Notes

- (1) Provide the prior three years' actual material overhead expenses and allocation base in the same format as the budget for 2002. For the year 2001, actuals are provided to date.
- (2) The projected material overhead expenses are based on the company's operating budget for 2002. The operating budget supporting data is located in file "DAAH01-02-R-0001, Material Overhead-Operating Budget" and is immediately available upon request.
- (3) The same rate is estimated for fiscal years 2003 and 2004. We anticipate minimal inflation and a stable business base. The data and analysis supporting this assertion is located in file "DAAH01-02-R-0001, Material Overhead-Forecast" and is available immediately upon request.

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### **3-601 Negotiations**

In the process of negotiating the contract terms and price, the PCO or ACO will meet with the contractor. Depending upon the significance and complexity of the procurement, this "meeting" may be face to face, by telephone, or even by mail. The PCO or ACO is assisted in the negotiations by the auditor's report. The auditor also attends negotiation meetings to provide support to the PCO or ACO.

### **3-701 Truth in Negotiations Act (TINA)**

a. Procurements by DoD, NASA and the U.S. Coast Guard are subject to the truth in negotiations provisions of the Armed Services Procurement Act, as modified by the Federal Acquisition Streamlining Act (FASA) of 1994 and the Clinger Cohen Act of 1996 [also known as the Federal Acquisition Reform Act of 1996 (FARA)], and as codified at 10 USC 2306a. Under FASA, procurements by civilian agencies are subject to parallel requirements effective March 31, 1995. These requirements appear at 41 USC 254b. The purpose of these statutes is to put the government on equal footing with contractors when negotiating non-competitive or sole source contracts. FAR Parts 15 and 52 contain uniform implementing regulations and contract clauses.

b. The statutes require the submission and certification of cost or pricing data in conjunction with the pricing of negotiated prime contracts and subcontracts exceeding \$550,000. This threshold is subject to adjustment every five years. There are exceptions for prices based on adequate price competition, on acquisition of commercial items, and set by law or regulations. The head of the contracting activity may also grant waivers for submission of cost or pricing data if the price can be determined to be fair and reasonable without submission of cost or pricing data. Cost or pricing data is not obtained for acquisitions at or below the simplified acquisition threshold of \$100,000. FAR 15.403-1 discusses the exceptions. However, if a fair and reasonable price can not be determined, the head of the contracting activity may require cost or pricing data for procurements below the cost or pricing data threshold, but not at or below the simplified acquisition threshold [FAR 15.403-4(a)(2)]. The statutory requirements also apply to modifications of negotiated or advertised contracts or subcontracts, contract termination actions, and final pricing actions under price redeterminable contracts that exceed \$550,000. Contract and subcontract changes or modifications are subject to the requirements if the total amount of both the increases and decreases exceeds \$550,000 even though the net change in price is less than \$550,000 (FAR 15.403-4(a)(1)).

c. The contracting officer is required to obtain cost or pricing data before the award of negotiated contracts exceeding the \$550,000 threshold (FAR 15.403-4(a)). The contractor must submit the cost or pricing data with its proposal submission either actually or by specific identification in writing. Merely making available books, records, and other documents without identification does not constitute submission of cost or pricing data. To meet the statutory requirement for meaningful disclosure of current, accurate, and complete data, the contractor must provide new or revised data obtained after the date of the original cost proposal, but before negotiations are complete. The data should be promptly submitted in a manner that clearly shows how the information relates to the offeror's price proposal.

d. DCAA selects negotiated pricing actions (prime contracts, subcontracts, modifications, including final price redeterminations, equitable adjustments, and terminations) for audit on a

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systematic basis to determine compliance with the statutes. Selection considers such factors as contract type and dollar value of the contract, adequacy of accounting and estimating systems, and the number and amount of defective pricing found in prior audits. Selection of a contract for this type of audit (commonly referred to as a postaward audit, or defective pricing audit), is not an indicator of any impropriety on the part of the contractor.